

Water Utilities

Price:	\$44.71
Fair Value Estimate:	\$70.00
52-Week Range:	\$30.40 - \$54.52
Market Cap (MM):	10,954
Shr.O/S-Diluted (mm):	245.0
Average Daily Volume:	1,139,007
Book Value:	\$18.83
Dividend:	\$0.94
Yield:	2.1%

FYE: Dec	2019A	2020E	2021E
EPS:	\$1.47A	\$1.58E	\$1.67E
Prior EPS:		NC	\$1.66
P/E Ratio:	30.4x	28.3x	26.8x

Quarterly EPS:

Q1	\$0.28A	\$0.60A	\$0.66E
Q2	\$0.37A	\$0.28E	\$0.23E
Q3	\$0.48A	\$0.24E	\$0.26E
Q4	\$0.34A	\$0.46E	\$0.52E

EPS: adjusted

Quarterly Revenue (M):

Q1	\$201A	\$256A	\$773E
Q2	\$219A	\$352E	\$342E
Q3	\$244A	\$342E	\$360E
Q4	\$226A	\$541E	\$579E
Year:	\$890A	\$1,491E	\$2,053E



July 20, 2020

Essential Utilities Inc.

(WTRG) - BUY

2Q20 Preview; Raising Estimates Due to Favorable Weather, Reiterate BUY Rating, \$70 Fair Value

PORTFOLIO MANAGER BRIEF

We've increased our 2Q20 estimates materially (adjusted EPS from \$0.23 to \$0.28) based on favorable weather patterns for both the natural gas and water segments during the April-June time frame. Full year 2020 adjusted EPS guidance is currently \$1.53 - \$1.58; we see the potential for that range to tighten (to the upside) or be increased if favorable weather patterns continue. We maintain our BUY rating and \$70 Fair Value on WTRG shares.

ANALYST NOTES

- Weather Should Positively Contribute to 2Q20 Results. April in the State of Pennsylvania was surprisingly cold, and we expect Essential's Peoples Gas segment results to benefit. We noted on the UGI Corp website [UGI Corp weather](#) that temperatures in April for its UGI Utilities segment (all in Pennsylvania) was 14% colder than normal in April and 23% colder in May. As Summer arrived, the weather changed quickly, and its been hot and dry through June and July. That should benefit Essential's water segment results, and we've raised our forecasts as a result. NOAA's 8-14 day outlook sees temperatures remaining above average across much of the United States, and a heatwave started this weekend in the Northeast.
- What Will WTRG Do With Full Year Guidance? Our previous 2Q20 adjusted EPS estimate was \$0.23; now its \$0.28. We were already at the high end of Company annual guidance before the change. 3Q20 weather is shaping up very nicely as well, with July hot and dry through the 19th, and the current NOAA forecast for that to continue through month-end. We've lowered our 4Q20 forecasts to remain within the Company's guidance range for the full year (\$1.53 to \$1.58), but we note that if we get a cold 4Q (like last year) WTRG is set-up to outperform its current guidance range.
- Summary/Valuation. Essential Utilities is off to good start in 2020. The closing of its Peoples Gas transaction, coupled with favorable weather patterns should allow it to deliver earnings at or above previous expectations. We still see plenty of upside to share prices; the 2.1% yield remains the highest in the water utility peer group, and with the U.S. 10YR T-Note yield 150bps lower, we continue to recommend accumulation at current levels. We reiterate our BUY rating and \$70 Fair Value, based on a P/E of 42x our 2021 EPS estimate of \$1.67 (which also equates to a 1.5% dividend yield in 2030 that assumes a 7.5% dividend CAGR).

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Michael Gaugler, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Essential Utilities Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

Janney Montgomery Scott LLC currently acts as a market-maker in the securities of Essential Utilities Inc..

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Essential Utilities Inc. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Essential Utilities Inc. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Essential Utilities Inc. and UGI Corporation in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

Definition of Ratings

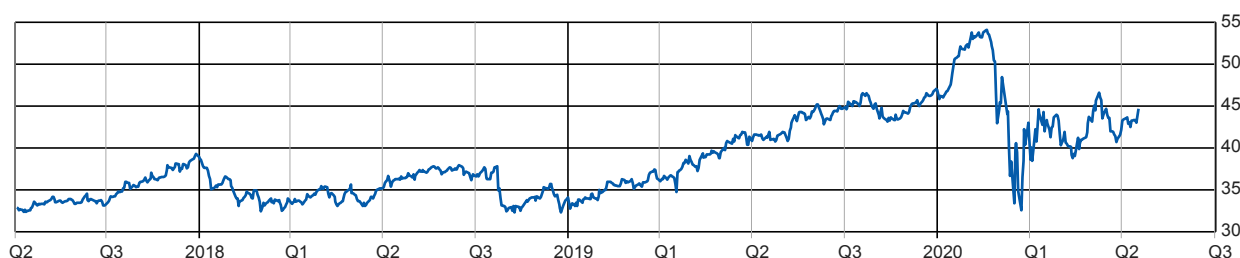
BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

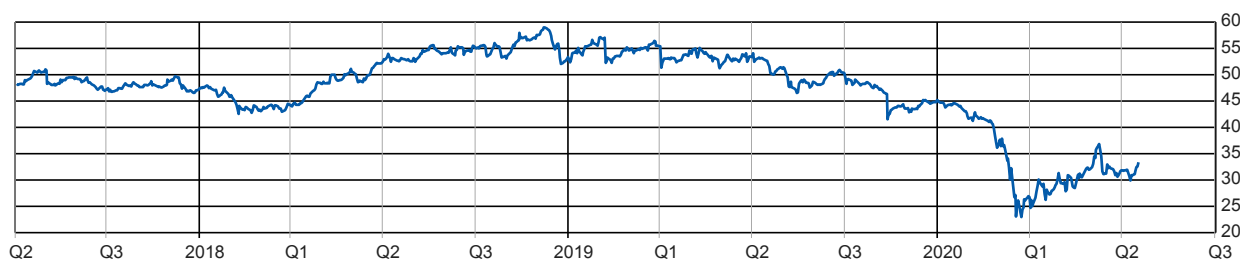
Price Charts

Rating and Price Target History for: Essential Utilities Inc. (WTRG) as of 07-17-2020



Created by: BlueMatrix

Rating and Price Target History for: UGI Corporation (UGI) as of 07-17-2020



Created by: BlueMatrix

Janney Montgomery Scott Ratings Distribution as of 06/30/2020

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	116	46.40	26	22.41
NEUTRAL [N]	133	53.20	21	15.79
SELL [S]	1	0.40	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

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